General Information

Legal form of entity	Municipality (MFMA)
Nature of business and principal activities	Nketoana Local Municipality performs the functions as set out in the Constitution, (Act no 105 of 1996)
Executive committee	
Mayor	Mokoena, MT
Councillors	Mokoena, TE
	Mokoena, KA
	Mofokeng, PP
	Nhlapo, LG
	Nhlapo, BM
	Motloung, MS
	Semela, MS
	Mphaka, MR
	Moloedi, PM
	Mofokeng, NL
	Tshabalala, NS
	Blignaut, M
	Botha, MC
	Mosia, MJ
	Muller, HMC
	Mkhwanazi, M
	Mofokeng, KA
Grading of local authority	Medium Capacity
	Grade 3 in terms of the Remuneration of Public Office Bearers' Act
Accounting Officers	Manzi, MP
	Alexander, RR
Chief Finance Officer (CFO)	Malindi, X
Registered office	Corner Church and Voortrekker St Reitz 9810
Business address	Corner Church and Voortrekker St Reitz 9810
Postal address	P.O. Box 26 Reitz 9810
Controlling entity	Nketoana Municipality
Bankers	ABSA (Primary bank)
Auditors	Auditor-General South Africa

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Index

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officers' Responsibilities and Approval

The municipality is engaged in providing municipal services and maintaining the best interest of the local community, mainly in the Nketoana area and operates principally in South Africa.

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officers sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officers certifies that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 33 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government’s determination in accordance with this Act.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on page 6 to 101, which have been prepared on the going concern basis, were approved and signed by the accounting officers on 30 August 2019:

Accounting Officer
RR Alexander

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2019.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet four times per annum as per its approved terms of reference. During the current year four meetings were held.

	2019/03/25	2018/11/28	2018/09/21	2018/08/13
B.T.A Matabane (Chairperson)	Yes	Yes	Yes	Yes
P.M Senyane	Yes	Yes	Yes	Yes
M.E Sello	Yes	Yes	Yes	Yes

All members of the Audit Committee are independent, with no interest in the management or conduct of the business of the Municipality.

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the PFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The system of controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the MFMA, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the accounting officers of the municipality during the year under review.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the unaudited annual financial statements to be included in the annual report, with the Auditor-General and the accounting officers;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits, except for issues raised by the committee in their report to Council.

Chairperson of the Audit Committee

Audit Committee Report

Date: ______________________________

Accounting Officers' Report

The accounting officers submit their report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not, in our opinion, require any further comment.

Net deficit of the municipality was R 101 204 404 (2018: deficit R 93 061 293).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The municipality Head Office Building in Reitz was torched with fire in an attempted arson attack on the 8th July 2019 and sections of the building were damaged as a result. The estimated insurable damages amounted to R227 890 and this event has not been estimated to have a material adjusting effect on the annual financial statements. The accounting officers are not aware of any other matter(s) or circumstance(s) arising since the end of the financial year that would have an impact on the financial statements.

4. Accounting Officers' interest in contracts

In terms of the Supply Chain Management Policy of the municipality, councillors and officials are prohibited from entering into commercial transactions with the municipality.

Councilors and officials are required to disclose any business interest which they may have elsewhere.

The register of declaration of interest is available in the office of the Chief Whip for inspection.

Consistent with the Supply Chain Management Policy of the municipality, none of the councillors or officers entered into any commercial transaction with the municipality during the period under review. The Accounting Officer does not have any interest in contracts.

5. Accounting policies

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122(3) of the Municipal Finance Management Act, (Act No. 56 of 2003).

6. Non-current assets

There were no major changes in the physical nature of non-current assets of the municipality during the year.

7. Accounting Officers

The accounting officers of the municipality during the year and to the date of this report are as follows:

MP Manzi	South African	Suspended on 1 August 2019
RR Alexander	South African	Appointed on 1 August 2019

8. Auditors

Auditor-General South Africa will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	3	645 070	765 824
Other financial assets	4	142 935	91 693
Receivables from exchange transactions	5	31 693	31 693
Receivables from non-exchange transactions	6	2 209 411	3 280 997
VAT receivable	7	35 021 492	21 159 823
Consumer debtors	8	24 307 043	21 472 278
Cash and cash equivalents	9	5 447 827	978 221
		67 805 471	**47 780 529**
Non-Current Assets			
Biological assets	10	126 000	72 952
Investment property	11	102 413 722	102 413 722
Property, plant and equipment	12	962 108 670	982 409 886
Intangible assets	13	16 915	33 143
Heritage assets	14	529 800	529 800
Other financial assets	4	1 069 566	1 064 480
Long-term deposit	15	3 507 892	3 331 304
		1 069 772 565	**1 089 855 287**
Total Assets		**1 137 578 036**	**1 137 635 816**
Liabilities			
Current Liabilities			
Other financial liabilities	16	2 400 000	2 400 000
Finance lease obligation	17	593 291	966 925
Payables from exchange transactions	18	378 785 958	269 990 585
Consumer deposits	19	1 683 235	1 513 113
Employee benefit obligation	20	1 399 223	916 942
Unspent conditional grants and receipts	21	3 984 968	3 846 104
Bank overdraft	9	-	5 729 492
		388 846 675	**285 363 161**
Non-Current Liabilities			
Other financial liabilities	16	4 843 796	4 138 222
Finance lease obligation	17	875 446	1 217 809
Employee benefit obligation	20	31 726 428	29 586 087
Provisions	22	55 108 065	52 452 121
		92 553 735	**87 394 239**
Total Liabilities		**481 400 410**	**372 757 400**
Net Assets		**656 177 626**	**764 878 416**
Accumulated surplus		656 177 626	764 878 416

* See Note 2 & 49

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	23	144 074 581	139 413 332
Rental of facilities and equipment	24	500 615	514 678
Interest received (trading)	25	45 384 048	40 358 478
Other income	26	993 714	1 224 473
Interest received - investment	27	504 154	831 922
Total revenue from exchange transactions		**191 457 112**	**182 342 883**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	28	19 254 679	18 796 636
Transfer revenue			
Government grants & subsidies	29	126 837 501	120 078 100
Public contributions and donations	30	-	500 000
Fines, Penalties and Forfeits	31	1 537 106	36 329
Total revenue from non-exchange transactions		**147 629 286**	**139 411 065**
Total revenue		**339 086 398**	**321 753 948**
Expenditure			
Employee related costs	32	(118 100 464)	(109 055 171)
Remuneration of councillors	33	(6 850 315)	(6 166 398)
Depreciation and amortisation	34	(55 809 090)	(67 200 157)
Impairment loss	35	(149 042)	(548 280)
Finance costs	36	(32 443 045)	(24 028 901)
Lease rentals on operating lease	37	(4 069 921)	(183 147)
Debt Impairment	38	(109 185 792)	(100 079 358)
Repairs and maintenance	39	(11 899 647)	(11 380 572)
Bulk purchases	40	(51 432 379)	(46 825 412)
Contracted services	41	(12 768 281)	(10 856 947)
General expenses	42	(39 560 599)	(37 092 713)
Total expenditure		**(442 268 575)**	**(413 417 056)**
Operating deficit		**(103 182 177)**	**(91 663 108)**
Gain (loss) on disposal of assets and liabilities	43	200 000	(1 647 498)
Fair value adjustments	44	53 047	27 953
Actuarial gains/(losses)	20	1 724 726	221 360
		1 977 773	**(1 398 185)**
Deficit for the year		**(101 204 404)**	**(93 061 293)**

* See Note 2 & 49

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	795 979 727	795 979 727
Adjustments		
Prior year adjustments	65 711 449	65 711 449
Balance at 01 July 2017 as restated*	**861 691 176**	**861 691 176**
Changes in net assets		
Deficit for the year	(93 061 293)	(93 061 293)
Adjustments directly to accumulated surplus	(3 751 467)	(3 751 467)
Total changes	(96 812 760)	(96 812 760)
Restated* Balance at 01 July 2018	**764 878 416**	**764 878 416**
Changes in net assets		
Deficit for the year	(101 204 404)	(101 204 404)
Adjustments directly to accumulated surplus	(7 496 386)	(7 496 386)
Total changes	(108 700 790)	(108 700 790)
Balance at 30 June 2019	**656 177 626**	**656 177 626**
Note(s)	49	

* See Note 2 & 49

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Taxation - Property rates		1 262 907	17 340 255
Sale of goods and services		93 759 783	80 660 229
Grants		126 976 365	123 924 204
Interest income		504 154	831 922
Other receipts		3 031 435	1 752 093
		225 534 644	224 508 703
Payments			
Employee costs		(117 684 582)	(101 851 165)
Suppliers		(29 585 052)	(67 967 245)
Finance costs		(32 354 029)	(24 028 901)
		(179 623 663)	(193 847 311)
Net cash flows from operating activities	45	**45 910 981**	**30 661 392**
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(34 741 890)	(36 890 435)
Proceeds from sale of property, plant and equipment		-	1 178 507
Purchase of financial assets		-	4 482 499
(Purchase) /disposal of financial assets		(56 328)	-
Contributions to long-term deposit		(176 588)	(186 290)
Net cash flows from investing activities		**(34 974 806)**	**(33 574 507)**
Cash flows from financing activities			
Repayment of other financial liabilities		705 574	(2 299 670)
Repayment of finance lease liability		(1 068 035)	(597 990)
Employee benefits obligation paid		(374 616)	(246 427)
Net cash flows from financing activities		**(737 077)**	**(3 144 087)**
Net increase/(decrease) in cash and cash equivalents		**10 199 098**	**(6 057 202)**
Cash and cash equivalents at the beginning of the year		(4 751 271)	1 305 931
Cash and cash equivalents at the end of the year	9	**5 447 827**	**(4 751 271)**

* See Note 2 & 49

Nketoana Local Municipality
(Registration number FS193)
Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	158 541 156	(20 874 855)	**137 666 301**	144 074 581	**6 408 280**	Note 1
Rental of facilities and equipment	782 100	(322 965)	**459 135**	500 615	**41 480**	Note 2
Interest received (trading)	42 201 084	701 811	**42 902 895**	45 384 048	**2 481 153**	Note 3
Other income	19 737 876	(2 467 651)	**17 270 225**	993 714	**(16 276 511)**	Note 4
Interest received - investment	1 410 948	(452 668)	**958 280**	504 154	**(454 126)**	Note 5
Total revenue from exchange transactions	**222 673 164**	**(23 416 328)**	**199 256 836**	**191 457 112**	**(7 799 724)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	21 859 764	(859 764)	**21 000 000**	19 254 679	**(1 745 321)**	Note 6
Transfer revenue						
Government grants & subsidies	155 318 664	(255 535)	**155 063 129**	126 837 501	**(28 225 628)**	Note 7
Fines, penalties and forfeits	650 004	(347 648)	**302 356**	1 537 106	**1 234 750**	Note 8
Total revenue from non-exchange transactions	**177 828 432**	**(1 462 947)**	**176 365 485**	**147 629 286**	**(28 736 199)**	
Total revenue	**400 501 596**	**(24 879 275)**	**375 622 321**	**339 086 398**	**(36 535 923)**	
Expenditure						
Employee cost	(118 387 212)	(5 799 441)	**(124 186 653)**	(118 100 464)	**6 086 189**	Note 9
Remuneration of councillors	-	-	**-**	(6 850 315)	**(6 850 315)**	Note 10
Depreciation and amortisation	(58 872 576)	(9)	**(58 872 585)**	(55 809 090)	**3 063 495**	Note 11
Impairment loss	-	-	**-**	(149 042)	**(149 042)**	Note 13
Finance costs	(18 115 128)	(3 886 610)	**(22 001 738)**	(32 443 045)	**(10 441 307)**	Note 12
Lease rentals on operating lease	-	-	**-**	(4 069 921)	**(4 069 921)**	Note 13
Debt Impairment	(55 027 044)	2 127 044	**(52 900 000)**	(109 185 792)	**(56 285 792)**	Note 14
Repairs and maintenance	(5 883 996)	(2 325 686)	**(8 209 682)**	(11 899 647)	**(3 689 965)**	
Bulk purchases	(9 576 960)	8 806 960	**(770 000)**	(51 432 379)	**(50 662 379)**	Note 15
Contracted Services	(23 472 744)	(5 911 128)	**(29 383 872)**	(12 768 281)	**16 615 591**	Note 16
General Expenses	(71 108 700)	(13 528 283)	**(84 636 983)**	(39 560 599)	**45 076 384**	Note 17
Total expenditure	**(360 444 360)**	**(20 517 153)**	**(380 961 513)**	**(442 268 575)**	**(61 307 062)**	
Operating deficit	**40 057 236**	**(45 396 428)**	**(5 339 192)**	**(103 182 177)**	**(97 842 985)**	
Gain on disposal of assets and liabilities	-	-	**-**	200 000	**200 000**	Note 18
Fair value adjustments	-	-	**-**	53 047	**53 047**	Note 19
Actuarial gains/losses	-	-	**-**	1 724 726	**1 724 726**	Note 23
	-	**-**	**-**	**1 977 773**	**1 977 773**	
Deficit before taxation	**40 057 236**	**(45 396 428)**	**(5 339 192)**	**(101 204 404)**	**(95 865 212)**	
Actual Amount on Comparable Basis	**40 057 236**	**(45 396 428)**	**(5 339 192)**	**(101 204 404)**	**(95 865 212)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Basis differences
Both the approved budget and the financial statements are prepared on the accrual basis and differences between the final budget and actual amounts are therefore not due to basis differences.

Timing differences
The budget period does not differ from the financial statements period and differences between the final budget and the actual amounts are therefore not due to timing differences.

Explanation of Variances between Approved Budget and Actual
Variances greater than 10% are deemed material on the various items disclosed and are explained below:

Note 1
The budgeted amount was not in line with growth expectations. The service charges increased as expected but is still not in line with the budgeted amount.

Note 2
The variance is not significant. Rental of halls, swimming pools and other facilities slighly more than budget.

Note 3
The variance is not significant. Increase occurred due to the rising consumer debtor figure.

Note 4
The budgeted amount included revenue collection strategies which were never implemented.

Note 5
The municipality had to utilised the Standard bank investment to pay the outstanding debt to DBSA. Investment decreased with R 3 million which decreased the interest on investments.

Note 6
The variance is not significant. There was lower collections on the property rates than expected.

Note 7
The budgeted amount does not include capital grants such as MIG, RBIG and INEG, whilst the actual amount includes capital and operational grants.

Note 8
The municipality did not budget for the donation, as it was not anticipated or confirmed during the budget process.

Note 9
Issuing and collection of fines were lower than budgeted for. GRAP 23 recognition of fines revenue was not taken into account when budgeting.

Note 10
There was an increase on the appointments which resulted in the increase in basic salary, bonus and other employee related cost. There was also a significant increase on pension contributions which were not anticipated.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Note 11
The actual remuneration of councillors is lower than the budgeted amount and can be linked to the amendments made to the upper limits on council remuneration as per the Government gazette.

Note 12
The municipality’s anticipated depreciation for 2017/2018 was budgeted based on the figures of 2016/2017. Due to prior period errors the actual 2017/2018 depreciation was more that budgeted for.

Note 13
Impairment losses on assets, stolen,damaged or lost was not budgeted for as it was based on the actual amount of 2016/2017 which was trivial.

Note 14
Finance cost actually incurred was more than anticipated. Eskom outstanding amounts increased, interest levied was the main contributor to the difference.

Note 15
Lease rentals on operating leases are budgeted for under general expenses.

Note 16
The 2017/2018 actual write-offs amounted to R48 million whilst the increase in the provision for bad debts amounted to R51 million. The municipality anticipated R54 million and did not budget for the movement in the bad debt provision.

Note 17
The actual amount for repairs and maintenance was budgeted for under general expenses and contracted services due to implementation of the Mscoa budget.

Note 18
The budgeted bulk purchases are 7% more than the actual amount. The significant increase in the cost of electricity for 2016/2017 was anticipated for the current financial period and therefore the budgeted amount was to high.

Note 19
Included on the actual of contracted are professional fees and legal fees which are budgeted under general expenditure.

Note 20
Due to the Mscoa budget implementation, items relating to contracted services and repairs and maintenance was budgeted under general expenditure.

Note 21
The municipality did not budget for losses on disposals.

Note 22
The municipality did not budget for fair value adjustments.

Note 23
The municipality did not budget for actuarial gains/losses.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Biological assets

The entity recognises a biological assets or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

Where fair value cannot be measured reliably, biological assets are measured at cost.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Accounting Policies

1.4 Investment property (continued)

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes.

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 39).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 12).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

1.5 Property, plant and equipment (continued)

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	5 - 60 years
Furniture and fixtures	Straight line	5 - 7 years
Motor vehicles	Straight line	5 - 15 years
Office equipment	Straight line	4 - 15 years
Emergency equipment	Straight line	5 years
Leased assets	Straight line	3 years
Electricity network	Straight line	5 - 60 years
Roads and stormwater	Straight line	10 - 60 years
Wastewater network	Straight line	5 - 70 years
Water network	Straight line	5 - 60 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

1.5 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 39).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 12).

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

1.6 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 - 9 years

1.7 Heritage assets

Class of heritage assets means a grouping of heritage assets of a similar nature or function in a municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 39).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 14).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Accounting Policies

1.7 Heritage assets (continued)

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

Accounting Policies

1.8 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

1.8 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Accounting Policies

1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Accounting Policies

1.9 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programs are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programs) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Accounting Policies

1.14 Provisions and contingencies

A *contingent asset* is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the council.

A *contingent liability* is:
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of council; or
- a present obligation that arises from past events but is not recognised because: - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- the amount of the obligation cannot be measured with sufficient reliability.

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

1.14 Provisions and contingencies (continued)

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 47.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Accounting Policies

1.15 Commitments

The term 'commitments' is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the entity of resources embodying economic benefits.

Generally, a commitment arises when a decision is made to incur a liability e.g. a purchase contract. Such a decision is evidenced by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

An entity may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the entity has contracted for expenditure but no work has started and no payments have been made.

The notes to the financial statements must disclose the nature and amount of each material individual expenditure commitment and each material class of capital expenditure commitment as well as non-cancelable operating leases contracted for at the reporting date. Commitments for the supply of inventories, where a liability under a contract has not yet been recognised, do not require disclosure as a commitment.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
-Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
-Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.16 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly. Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Prepaid electricity
Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August).

The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

1.16 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

1.17 Revenue from non-exchange transactions (continued)

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.17 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Accounting Policies

1.22 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant program/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Accumulated surplus

The municipality’s surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets. The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.25 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Accounting Policies

1.25 Related parties (continued)

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year.

3. Inventories

Consumable stores	118 164	128 732
Water for distribution	526 906	637 092
	645 070	**765 824**

Inventories recognised as an expense during the year	318 932	491 929

Consumables amounting to R 208 746 (2018: R 188 936) and water amounting to R 110 186 (2018: R 302 993) were expensed.

Inventory pledged as security

No inventory type is pledged as security.

4. Other financial assets

Residual interest at cost		
Unlisted shares VKB Agricultural (Pty) Ltd.	5 000	5 000
Preference shares VKB Agricultural (Pty) Ltd.	461 190	457 623
Security shareholders loan VKB Agricultural (Pty) Ltd.	718 679	667 437
	1 184 869	**1 130 060**
At amortised cost		
Other financial asset Standard Bank - Money Market account	27 632	26 113
Total other financial assets	**1 212 501**	**1 156 173**

Non-current assets		
Residual interest at cost	1 041 934	1 038 367
At amortised cost	27 632	26 113
	1 069 566	**1 064 480**
Current assets		
Residual interest at cost	142 935	91 693

Financial assets at fair value

Financial assets at amortised cost

Nominal value of financial assets at cost

VKB Agricultural (Pty) Ltd shares Investment in a private company initially recognised at cost. Council have not been able to determine the reasonability of the fair value.	1 184 869	1 130 060

4. Other financial assets (continued)

Financial assets pledged as collateral

Collateral

Carrying value of financial assets pledged as collateral for liabilities or contingent liabilities	27 632	26 227

5. Receivables from exchange transactions

Unauthorised expenditure	7 980 337	7 980 338
Provision for bad debts	(7 948 644)	(7 948 645)
	31 693	**31 693**

Trade and other receivables pledged as security

None of the Receivables from exchange transactions are pledged as security.

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade and other receivables past due but not impaired

At 30 June 2019, R - (2018: R -) were past due but not impaired.

Trade and other receivables impaired

As of 30 June 2019, other receivables of R - (2018: R 7 960 609) were impaired and provided for.

Reconciliation of provision for impairment of trade and other receivables

Opening balance	7 960 609	7 960 609

6. Receivables from non-exchange transactions

Fines	3 300	3 300
Consumer debtors - Rates	2 206 111	3 277 697
	2 209 411	**3 280 997**

Receivables from non-exchange transactions pledged as security

No other receivables from non-exchange transactions were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

6. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions past due but not impaired

The ageing of amounts past due but not impaired is as follows:

1 month past due	171 721	394 656
2 months past due	57 881	81 374
3 months past due	57 554	40 418
> 3 months past due	2 805 769	1 030 424
	3 092 925	**1 546 872**

Reconciliation of consumer debtors - rates

Consumer debtors - Rates	46 718 037	28 582 383
Consumer debtors - Rates (impairment)	(44 511 926)	(25 304 686)
	2 206 111	**3 277 697**

Rates

Current (0 -30 days)	1 232 672	1 734 125
31 - 60 days	2 303 779	394 656
61 - 90 days	499 559	81 374
91 - 120 days	486 209	40 418
121 - 150 days	468 741	20 331
> 150 days	41 727 077	1 006 793
Impairment	(44 511 926)	-
	2 206 111	**3 277 697**

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(25 304 686)	(22 787 652)
Provision for impairment	(19 207 240)	(2 517 034)
	(44 511 926)	**(25 304 686)**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 38). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

7. VAT receivable

VAT Receivable	35 021 492	21 159 823

VAT is payable/receivable on the receipts and payment basis. Only once payment is received from debtors, VAT is paid over to SARS. The amount presented in this note includes VAT accounted for on an accrual basis basis thus not recoverable from SARs.

The VAT receivable on cash basis basis is R 2 292 509 (2018: R0)

Figures in Rand	2019	2018

8. Consumer debtors (exchange transactions)

Gross balances		
Electricity	23 428 960	13 059 852
Water	197 536 018	104 789 378
Sewerage	98 483 359	51 032 473
Refuse	110 346 782	56 810 700
Sundry debtors	31 956 728	185 908 471
Housing rental	447 481	283 656
	462 199 328	**411 884 530**

Less: Allowance for impairment		
Electricity	(16 909 798)	(7 575 743)
Water	(188 601 154)	(99 444 485)
Sewerage	(95 267 208)	(48 602 389)
Refuse	(107 155 292)	(54 801 225)
Sundry debtors	(29 513 455)	(179 706 282)
Housing rental	(445 378)	(282 128)
	(437 892 285)	**(390 412 252)**

Net balance		
Electricity	6 519 162	5 484 109
Water	8 934 864	5 344 893
Sewerage	3 216 151	2 430 084
Refuse	3 191 490	2 009 475
Sundry debtors	2 443 273	6 202 189
Housing rental	2 103	1 528
	24 307 043	**21 472 278**

Electricity		
Current (0 -30 days)	6 973 119	4 404 319
31 - 60 days	1 039 802	428 978
61 - 90 days	541 545	160 631
91 - 120 days	522 295	78 130
121 - 150 days	479 289	31 679
> 150 days	13 872 910	380 372
Impairment	(16 909 798)	-
	6 519 162	**5 484 109**

Water		
Current (0 -30 days)	5 957 797	1 780 103
31 - 60 days	4 542 201	188 953
61 - 90 days	3 912 176	159 575
91 - 120 days	4 439 324	127 488
121 - 150 days	3 946 712	104 683
> 150 days	174 737 808	2 984 091
Impairment	(188 601 154)	-
	8 934 864	**5 344 893**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

8. Consumer debtors (exchange transactions) (continued)

Sewerage		
Current (0 -30 days)	3 015 995	773 657
31 - 60 days	2 095 812	157 075
61 - 90 days	1 962 844	126 085
91 - 120 days	1 928 946	55 059
121 - 150 days	1 922 331	45 606
> 150 days	87 557 432	1 272 602
Impairment	(95 267 209)	-
	3 216 151	**2 430 084**

Refuse		
Current (0 -30 days)	2 852 480	444 078
31 - 60 days	2 339 334	128 216
61 - 90 days	2 252 542	96 140
91 - 120 days	2 201 925	64 361
121 - 150 days	2 201 909	49 394
> 150 days	98 498 593	1 227 286
Impairment	(107 155 293)	-
	3 191 490	**2 009 475**

Sundry debtors		
Current (0 -30 days)	840 962	2 058 975
31 - 60 days	329 725	228 546
61 - 90 days	548 571	162 218
91 - 120 days	121 967	151 914
121 - 150 days	151 719	77 408
> 150 days	29 963 784	3 523 128
Impairment	(29 513 455)	-
	2 443 273	**6 202 189**

Housing rental		
> 150 days	447 481	1 528
Impairment	(445 378)	-
	2 103	**1 528**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

8. Consumer debtors (exchange transactions) (continued)

Summary of debtors by customer classification

	2019	2018
Consumers		
Current (0 -30 days)	10 626 916	2 593 303
31 - 60 days	9 686 783	211 291
61 - 90 days	9 295 718	158 290
91 - 120 days	9 290 817	79 435
121 - 150 days	8 808 435	31 457
> 150 days	377 275 756	198 975
	424 984 425	3 272 751
Less: Allowance for impairment	(413 210 167)	-
	11 774 258	**3 272 751**

	2019	2018
Industrial/ commercial		
Current (0 -30 days)	6 259 115	5 977 000
31 - 60 days	856 310	336 508
61 - 90 days	607 074	51 680
91 - 120 days	602 219	34 596
121 - 150 days	658 985	15 532
> 150 days	20 828 543	141 441
	29 812 246	6 556 757
Less: Allowance for impairment	(22 572 696)	-
	7 239 550	**6 556 757**

	2019	2018
National and provincial government		
Current (0 -30 days)	599 154	890 829
31 - 60 days	510 216	583 971
61 - 90 days	317 469	494 678
91 - 120 days	266 960	362 921
121 - 150 days	269 873	261 781
> 150 days	5 446 052	9 048 590
	7 409 724	11 642 770
Less: Allowance for impairment	(2 109 422)	-
	5 300 302	**11 642 770**

	2019	2018
Total		
Current (0 -30 days)	17 485 185	9 461 132
31 - 60 days	11 053 309	1 131 770
61 - 90 days	10 220 261	704 648
91 - 120 days	10 159 997	476 952
121 - 150 days	9 737 294	308 769
> 150 days	403 543 282	9 389 007
	462 199 328	21 472 278
Less: Allowance for impairment	(437 892 285)	-
	24 307 043	**21 472 278**

	2019	2018
Less: Allowance for impairment		
Current (0 -30 days)	-	(9 267 544)
31 - 60 days	-	(9 177 993)
61 - 90 days	-	(8 926 916)
91 - 120 days	-	(8 692 306)
121 - 365 days	-	(8 786 979)

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

8. Consumer debtors (exchange transactions) (continued)

> 365 days	(437 892 285)	(345 560 514)
	(437 892 285)	**(390 412 252)**

Reconciliation of allowance for impairment

Balance at beginning of the year	(390 412 252)	(338 370 261)
Contributions to allowance	(47 480 033)	(52 041 991)
	(437 892 285)	**(390 412 252)**

Consumer debtors pledged as security

None of the consumer debtors were pledged as security for any financial liability.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

None of the financial assets that are fully performing have been renegotiated in the last year.

Consumer receivables are only due after 30 days. Interest shall be paid on accounts which have not been paid within thirty days from the date on which the account became due, at prime rate plus 5% for the period.

Consumer debtors past due but not impaired

The ageing of amounts past due but not impaired is as follows:

1 month past due	737 734	1 131 770
2 months past due	451 493	704 648
3 months past due	388 710	476 952
4 months past due	379 587	308 769
> 4 months past due	9 103 850	9 389 007
	11 061 374	**12 011 146**

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	74 981	55 227
Bank balances	4 711 653	-
Short-term deposits	661 193	922 994
Cash and cash equivalents	-	(5 729 492)
	5 447 827	**(4 751 271)**

Current assets	5 447 827	978 221
Current liabilities	-	(5 729 492)
	5 447 827	**(4 751 271)**

9. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
ABSA - Operating account - 2170560119	3 595 266	526 586	790 131	3 861 669	433 235	(436 126)
ABSA - Banktel account - 2170142538	1 088 944	30 131	260 532	848 931	630 087	820 216
ABSA - Call account - 90741555973	138 765	401 178	565 673	138 765	401 178	565 673
Old Mutual - 520945	521 269	521 270	521 270	521 269	521 270	521 270
Total	**5 344 244**	**1 479 165**	**2 137 606**	**5 370 634**	**1 985 770**	**1 471 033**

10. Biological assets

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game	126 000	-	126 000	72 952	-	72 952

Reconciliation of biological assets - 2019

	Opening balance	Gains or losses arising from changes in fair value	Total
Game	72 952	53 048	126 000

Reconciliation of biological assets - 2018

	Opening balance	Gains or losses arising from changes in fair value	Total
Game	45 000	27 952	72 952

Non - Financial information

Quantities of each biological asset		
Blesbok	18	18
Springbuck	5	5
Wildebeest	2	2
Zebra	2	2
	27	**27**

Pledged as security

None of the biological assets were pledged as security for any financial liabilities.

Figures in Rand	2019	2018

10. Biological assets (continued)

Methods and assumptions used in determining fair value

The latest bid prices from game auctions were used as approximate fair values.

11. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	102 413 722	-	102 413 722	102 413 722	-	102 413 722

Reconciliation of investment property - 2019

	Opening balance	Additions	Disposals	Total
Investment property	102 413 722	-	-	102 413 722

Reconciliation of investment property - 2018

	Opening balance	Additions	Disposals	Total
Investment property	102 413 722	-	-	102 413 722

Pledged as security

Investment property is not pledged as security.

There are no restrictions on the remittance of revenue and proceeds on disposals relating to investment property.

There are no contractual obligations to repair, maintain, enhance, purchase, construct or develop investment property.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

Land and buildings are re-valued independently annually.

The valuation was based on open market value for existing use.

The valuation of Investment properties was linked to the market values as per the valuation roll.These assumptions are based on current market conditions.

Amounts recognised in surplus or deficit

	2019	2018
Rental revenue from Investment property	444 855	359 382

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

12. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	17 838 185	-	17 838 185	17 838 185	-	17 838 185
Buildings	246 544 088	(129 504 368)	117 039 720	246 544 088	(123 000 172)	123 543 916
Infrastructure	1 702 659 572	(908 461 029)	794 198 543	1 668 678 982	(862 328 462)	806 350 520
Other property, plant and equipment	19 379 695	(13 041 059)	6 338 636	18 618 395	(11 504 877)	7 113 518
Landfill sites	67 154 530	(42 277 694)	24 876 836	66 255 732	(41 099 949)	25 155 783
Leased assets	2 956 071	(1 139 321)	1 816 750	2 956 071	(548 107)	2 407 964
Total	**2 056 532 141**	**(1 094 423 471)**	**962 108 670**	**2 020 891 453**	**(1 038 481 567)**	**982 409 886**

12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Other changes, rehabilitation provision movements	Depreciation	Impairment loss	Total
Land	17 838 185	-	-	-	-	-	17 838 185
Buildings	123 543 916	-	-	-	(6 504 196)	-	117 039 720
Infrastructure	806 350 520	33 980 590	-	-	(45 983 525)	(149 042)	794 198 543
Other property, plant and equipment	7 113 518	761 300	-	-	(1 536 182)	-	6 338 636
Landfill sites	25 155 783	-	-	898 798	(1 177 745)	-	24 876 836
Leased assets	2 407 964	-	-	-	(591 214)	-	1 816 750
	982 409 886	**34 741 890**	**-**	**898 798**	**(55 792 862)**	**(149 042)**	**962 108 670**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	17 838 185	-	-	-	-	17 838 185
Buildings	123 821 388	5 965 352	-	(6 242 824)	-	123 543 916
Infrastructure	826 354 631	28 258 698	(2 198 011)	(45 519 119)	(545 679)	806 350 520
Other property, plant and equipment	8 927 365	465 446	(627 994)	(1 648 698)	(2 601)	7 113 518
Landfill sites	38 278 240	338 921	-	(13 461 378)	-	25 155 783
Leased assets	857 858	1 862 018	-	(311 912)	-	2 407 964
	1 016 077 667	**36 890 435**	**(2 826 005)**	**(67 183 931)**	**(548 280)**	**982 409 886**

Assets subject to finance lease (Net carrying amount)

Office equipment	1 816 750	2 407 964

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

12. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)		
Petsana: Upgrading of 9km paved roads The project implementation is delayed due to limited funding.	19 027 677	19 027 677
Lindley: Water purification plant The project implementation is delayed due to limited funding and currently the focus is on the pipe line.	-	25 767 067
Mamafubedu: Sewer and recycled network and toilet connection project The project is implemented through National office of Department of Water and Sanitation and is currently under construction.	22 807 049	22 807 049
Reitz: Water treatment works project The project implementation is delayed due to limited funding.	8 310 943	8 310 943
	-	-
Petrus Steyn to Reitz Pipeline 12km (Water) The 12km project is still at design phase.	8 831 953	8 831 953
Petrus Steyn to Reitz 10km Water Pipeline The 10km pipe line is practically completed and will be capitalised upon completion of all other phases and commissioning.	17 436 342	17 436 342
	76 413 964	**102 181 031**

Reconciliation of Work-in-Progress 2019 included in property, plant and equipment

	Opening balance	Additions	Transfers	Total
Buildings	-	747 756	-	747 756
Electricity	3 351 730	1 256 047	(4 607 777)	-
Roads and stormwater	24 297 559	10 616 849	(8 342 813)	26 571 595
Sewer	23 787 038	7 301 806	-	31 088 844
Solid waste	668 921	-	-	668 921
Water	67 246 558	9 184 101	-	76 430 659
	119 351 806	**29 106 559**	**(12 950 590)**	**135 507 775**

Reconciliation of Work-in-Progress 2018 included in property, plant and equipment

	Opening balance	Additions	Transfers	Closing balance
Buildings	4 250 632	5 965 351	(9 906 765)	309 218
Electricity	-	3 351 730	-	3 351 730
Roads and stormwater	24 875 850	15 820 049	(16 398 340)	24 297 559
Sewer	22 807 050	979 988	-	23 787 038
Solid waste	330 000	338 921	-	668 921
Water	70 590 589	8 011 813	(11 355 844)	67 246 558
	122 854 121	**34 467 852**	**(37 660 949)**	**119 661 024**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

12. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

	2019	2018
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Infrastructure	10 469 142	9 552 116
Buildings	479 758	234 083
Other property, plant and equipment	950 747	1 594 373
	11 899 647	**11 380 572**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

13. Intangible assets

	2019			2018		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	208 235	(191 320)	16 915	240 691	(207 548)	33 143

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software	33 143	-	(16 228)	16 915

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	49 371	-	(16 228)	33 143

14. Heritage assets

	2019			2018		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage assets	529 800	-	529 800	529 800	-	529 800

Reconciliation of heritage assets 2019

	Opening balance	Additions	Disposals	Total
Heritage assets	529 800	-	-	529 800

Reconciliation of heritage assets 2018

	Opening balance	Additions	Disposals	Total

Notes to the Annual Financial Statements

Figures in Rand			2019	2018

14. Heritage assets (continued)

Heritage assets	529 800	-	-	529 800

Heritage assets which fair values cannot be reliably measured

Heritage assets cannot be reliably measured as it is heritage and do not have market values.

Pledged as security

No heritage assets were pledged as security:

15. Long-term deposit

	2019	2018
Non-current deposit	3 507 892	3 331 304

The long-term deposit is held by ESKOM for the upgrade done by the municipality to the electricity network.

The long-term deposit bears interest of 5.3% per annum. If the municipality decides to cancel the service agreement with Eskom then the deposit amount will be paid back. If the account to which the deposits relate are in arrears then the deposits will be appropriated towards the specific account.

16. Other financial liabilities

	2019	2018
At amortised cost		
Bank loan	7 243 796	6 538 222
The Development Bank of Southern Africa Limited		

Development Bank of South Africa
Loan 1
The original loan amount was R 9 600 000 repayable over a 20 year period with a redemption date of 31 December 2024.

On 14 August 2017 an agreement was made between DBSA and the Municipality for repayment of outstanding debt and arrears.

DBSA approved the release of collateral ceded to DBSA held by Standard Bank as security for the loans as partial repayment.

The outstanding balance including arrears of the two loans as disclosed below be consolidated into one loan with the same interest rate of 9.26%.

34 month debit order of R 200 000 was actioned by the Municipality to settle the remaining balance of the loan.

	2019	2018
Non-current liabilities		
At amortised cost	4 843 796	4 138 222
Current liabilities		
At amortised cost	2 400 000	2 400 000

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

17. Finance lease obligation

Minimum lease payments due		
- within one year	593 291	966 925
- in second to fifth year inclusive	1 177 899	1 771 189
	1 771 190	2 738 114
less: future finance charges	(302 452)	(553 380)
Present value of minimum lease payments	**1 468 738**	**2 184 734**

Present value of minimum lease payments due		
- within one year	593 291	966 925
- in second to fifth year inclusive	1 177 899	1 771 189
	1 771 190	**2 738 114**

Non-current liabilities	875 446	1 217 809
Current liabilities	593 291	966 925
	1 468 737	**2 184 734**

It is municipality policy to lease certain equipment under finance leases.

The average lease term is 3 years and the average effective borrowing rate was 17% (2018: 17%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 12.

18. Payables from exchange transactions

Accrued bonus	2 881 878	1 801 638
Deferred revenue	-	388 748
Accrued leave pay	7 930 789	7 183 501
Payments received in advanced	8 591 638	8 162 873
Deposits received	155 238	47 040
Trade payables	359 226 415	252 406 785
	378 785 958	**269 990 585**

19. Consumer deposits

Electricity and Water	1 648 293	1 483 143
Housing rental	34 942	29 970
	1 683 235	**1 513 113**

20. Employee benefit obligations

Long service bonus awards (LSA)

According to the Municipality's long service bonus policy, employees are entitled to the following rewards upon completion of various periods of service:

- 5 years : 5 days accumulative leave + 2% of employee's annual salary;
- 10 years : 10 days accumulative leave + 3% of employee's annual salary;
- 15 years : 15 days accumulative leave + 4% of employee's annual salary;
- 20 years : 15 days accumulative leave + 5% of employee's annual salary;
- 25 years : 15 days accumulative leave + 6% of employee's annual salary;
- Every 5 year intervals after 25 years the benefit remains the same as the 25 year long service bonus.

Post retirement medical aid benefits (PEMAL)

The employer has no formal post-retirement medical aid subsidy policy but pays medical aid subsidies in respect of 11 pensioners. The current subsidy varies between 60% and 91,8% of the of the medical aid contributions for different pensioners. These subsidy rates were obtained from data provided by the employer.

On the retirement of a pensioner, the employer will continue to subsidise the medical scheme contributions of the spouse or adult dependant of the pensioner.

For the purposes of the valuation the benefit is assumed to accrue uniformly since the date that employment commenced at the employer until the expected date of retirement. The accrual of the benefit in this way is consistent with the Projected Unit Credit Method of valuation referred to in GRAP25.

The benefit for the pensioners is regarded as being fully accrued.

The liability for the existing pensioners is calculated as the estimated amount that would need to be invested at the valuation date that should be sufficient to pay for their future contributions subsidy.

Figures in Rand	2019	2018

20. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(33 125 651)	(30 503 029)
Carrying value per benefit		
Long service awards	(4 774 523)	(4 076 374)
Medical aid benefits	(28 351 128)	(26 426 655)
	(33 125 651)	**(30 503 029)**
Non-current liabilities	(31 726 428)	(29 586 087)
Current liabilities	(1 399 223)	(916 942)
	(33 125 651)	**(30 503 029)**
Non-current liabilities		
Long service awards	(3 972 079)	(3 701 758)
Medical aid benefits	(27 754 349)	(25 884 329)
	(31 726 428)	**(29 586 087)**
Current liabilities		
Long service awards	(802 444)	(374 616)
Medical aid benefits	(596 779)	(542 326)
	(1 399 223)	**(916 942)**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

20. Employee benefit obligations (continued)

The medical contribution and long service award benefit obligations were valued by Actuarial Specialists (One Pangaea Financial) as at the end of the financial period 30 June 2019.

The reports were signed of by:

D.T. Mureriwa (Consulting Actuary)
Fellow of the Actuarial Society of South Africa; Fellow of the Faculty of Actuaries

T. G. Mhonde (Director)
Senior Actuarial Consultant

LONG SERVICE AWARD LIABILITY (LSA)

The long service awards liability arises from the municipality being a party to the Collective Agreement on Conditions of Service for the Free State Division of SALGBC.

In accordance with the requirements of GRAP25, the Projected Unit Credit method has been applied. Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases.

The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP25.

Eligible Employees

Number of employees as at 30 June 2019 - 446 (2018: 446)
Average annual salary (R) as at 30 June 2019 - 134 446 (2018: 133 112)
Average age (years) as at 30 June 2019 - 44.72 (2018: 43.72)
Average past service (years) as at 30 June 2019 - 9.68 (2018: 8.68)

Valution Assumptions.

Discount rate as at 30 June 2019 - 7.65% (2018: 8.52%)
CPI as at 30 June 2019 - 4.11% (2018: 5.28%)
Salary increase rate as at 30 June 2019 - 5.11%(2018: 6.28%)
Net Discount Rate - 2.42% (2018: 2.11%)

Promotional salary increase rates

Age Band	**Promotional increase**
20	5%
25	4%
30	3%
35	2%
40	1%
45+	-

Demographic and mortality
Normal retirement age (years) as at 30 June 2019 - 65 (2018: 65)
Mortality as at 30 June 2019 - SA85-90 (2018: SA85-90)

Withdrawal assumptions

Age	**Withdrawal rates (Female)**	**Withdrawal rates (Male)**
20	24.0%	16.0%
30	18.0%	12.0%
40	10.0%	8.0%
50	4.0%	4.0%
55	2.0%	2.0%
55+	-	-

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

20. Employee benefit obligations (continued)

POST-EMPLOYMENT MEDICAL AID LIABILITY (PEMAL)
In accordance with the requirements of GRAP25, the Projected Unit Credit method has been applied. The assumption underlying the funding method is that the employer's postemployment medical scheme costs in respect of an employee should be fully recognised by the time that the employee reaches fully accrued age. The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP25.

Valuation Assumptions

Net Discount rate
Discount rate (D) as at 30 June 2019 - 10.68% (2018: 9.18%)
Consumer price inflation (C) as at 30 June 2019 - 6.48% (2018: 5.73%)
Health care cost inflation (H) as at 30 June 2019 - 8.48% (2018: 7.23%)
Net discount rate ((1+D)/(1+H)-1) as at 30 June 2019 - 2.03% (2018: 1.82%)
A healthcare cost inflation rate of 8.48% was assumed. This is 1.50% in excess of the expected inflation over the expected term of the liability, consistent with the previous actuary. However, it is the relative levels of the discount rate and healthcare inflation to one another that are important, rather than the nominal values. A net discount factor of 2.03% per annum ([1 + 10.68%] / [1 + 8.48%] - 1) was assumed and this year's valuation basis is therefore stronger than previous year's basis from a discount rate perspective.

Demographic and Decrement	**Active employees**	**Pensioners**
Normal retirement age	65	-
Fully accrued age (ill-health and early retirement decrements)	63	-
Employment age used for past service period	Actual service entry ages	Actual service entry ages
Age difference between spouses	3 years	Actual ages used
Proportion married	90% at retirement	Actual marital status
Mortality	SA85-90 (Normal)	PA (90) - 2

The following withdrawal assumptions were applicable over the prior and current valuation periods:

Age	**Withdrawal rates**	**Withdrawal rates**
20	24%	16%
25	18%	12%
30	15%	10%
35	10%	8%
40	6%	6%
45	4%	4%
50	2%	2%
55+	-	-

Continuation Percentage
It is assumed that the continuation of the post-employment health care subsidy would be at 90% of active employees, or their surviving dependants.
At the date of valuation, no assets were set aside for post employment medical subsidies' funding that qualify as plan assets in terms of the requirements of GRAP25 and therefore a nil value is ascribed to the fair value of plan assets.

Changes in the present value of the defined benefit obligation are as follows:

	2019	2018
Opening balance	30 503 029	26 585 551
Benefits paid	(374 616)	(246 427)
Medical contributions subsidies for continuation pensioners	(542 326)	(545 883)
Net expense recognised in the statement of financial performance	3 539 564	4 709 788
	33 125 651	**30 503 029**

Figures in Rand	2019	2018

20. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	2 080 868	1 966 493
Past service cost	451 000	384 315
Interest cost	2 732 422	2 580 340
Actuarial (gains) losses	(1 724 726)	(221 360)
	3 539 564	**4 709 788**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(1 724 726)	(221 360)

21. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Intergrated National Electrification Programme Grant	-	1 419 705
Bulk Water Infrastructure Grant	2 226 633	2 426 399
Water Services Infrastructure Grant	758 335	-
Installation of Water Meters Grant	1 000 000	-
	3 984 968	**3 846 104**

Movement during the year

Balance at the beginning of the year	3 846 104	-
Additions during the year	39 433 364	44 044 204
Income recognition during the year	(39 294 500)	(40 198 100)
	3 984 968	**3 846 104**

See note 29 for reconciliation of grants from National/Provincial Government.

22. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	52 452 121	2 557 929	-	-	98 015	55 108 065

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	51 071 642	1 380 479	-	-	-	52 452 121

Environmental rehabilitation provision

22. Provisions (continued)

The provision is for the estimated future cost of the rehabilitation of the solid waste dumping sites at Mamafubedu (Petrus Steyn), Lindley and Petsana (Reitz).

The rehabilitation requirements are in terms of the Acts and Standards listed below:
- National Treasury: GRAP 17 & 19.
- The National Environmental Management Act 107 of 1998
- The National Environmental Management Waste Act 59 of 2008.
- The Minimum Requirements for Waste Disposal by Landfill: DWAF, 1998.
- The South African Constitution Act 108 of 1996.
- The National Environmental Management Air Quality Act 39 f 2004.
- Hazardous Substances Act 5 of 1973.
- Mineral and Petroleum Resources and Development Act 28 of 2002.
- Health Act 63 if 1977.
- Occupational Health and Safety Act 8 of 1993.
- Municipal Systems Act 32 of 200.
- Environmental Conservation Act 73 of 1989.
- Municipal Structures Act 117 of 1998.

Discount Rate Assumptions
Accounting Standard GRAP19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term/life of the landfill site.
The discount rate was deduced from the average of the Zero-Coupon Yield Curve (Nominal Bond) over the entire durations applicable in the future. The annualised long term discount rate at 27 June 2019 was 9.64% p.a.. The consumer price inflation of 6.21% p.a. was obtained from the differential between the averages of the Nominal Bond of 9.64% p.a. and the Real Bond 3.23% p.a. (Zero Yield Curves).

The Zero-Coupon Yield Curves were obtained from the Bond Exchange of South Africa after the market closed on 27 June 2019.

Key financial assumptions used
Discount rate (D) 30 June 2019 - 9.64%(30 June 2018: - 9.60%)
Consumer price inflation (C) - 6.21% (2018: - 6.05%)
Net discount rate ((1+D)/(1+H)-1) - 3.23% (2018: - 3.35%)

Mamafubedu (Petrus Steyn)
The disposal site presently used has an approximate area of 87 639 square meters.

The Mamafubedu Landfill Site was a historically illegal dumpsite situated in the centre of a residential community. The NLM received a closure license for the site in September 2015, which classifies the site as a Class B landfill. Licence condition 10.4 requires that the NLM proceeds with the closure activity within 3 years or the licence lapses. To date no plans have been made to start with the rehabilitation works and therefore it is recommended that the Nketoana Local Municipality requests the licence as soon as possible as the site is unsafe, unhygienic and is rapidly having a negative impact on the environment.

The site does not have a Landfill Permit in terms of Environment Conservation Act 1989 (Act 73 of 1989) and has been closed.
There is no access control at the landfill site, it is not fenced, and there is uncontrolled dumping in an open veld, therefore the landfill site is non-compliant. The site is still operational and is receiving general waste from Mamafubedu. The total tonnages deposited at the site are unknown because there is no record of incoming waste. However, the landfill is believed to have a site life of 13 years. Previous reports have indicated that the site have reached its technical capacity and should be rehabilitated. As stated above, this recommendation should be implemented as soon as practically possible to prohibit further social and environmental damage.
Present value (2019) of the rehabilitation of the solid waste site is R 38 477 120.

Lindley
The disposal site presently used has an approximate area of 51 176 square meters.

Figures in Rand	2019	2018

22. Provisions (continued)

The Lindley Landfill Site is classified as a Class 2 landfill and is permitted in accordance with now superseded legislation (Environment Conservation Act, 73 of 89). The permit is dated January 1993, which is assumed as being the start date of disposal operations. The site is located in an old quarry and covers an extensive area. The site has an estimated remaining life of 20 years. There is no access control at the landfill site, it is not fenced, and there is uncontrolled dumping in an open veld, therefore the landfill site is non-compliant. The site is operational and receiving waste from of Lindley. The total tonnages deposited at the site are unknown because there is no record of incoming waste.

Present value (2019) of the rehabilitation of the solid waste site is R 24 062 770.

Petsana (Reitz)
The disposal site presently used has an approximate area of 25 097 square meters.

The Reitz Landfill Site is permitted as a GSB- site. The permit is dated November 2012. The landfill site is closed although waste is still being dumped outside the gate. The site does not have a Landfill Permit in terms of Environment Conservation Act 1989 (Act 73 of 1989). The last permit for the landfill site that was made available to the auditor and was issued around 1994. Landfill site permits are only issued and valid for a 6 year period and need to be renewed after they have expired. Therefore, the landfill site does not currently have any operations permit. The site is fenced and enclosed and waste from Reitz and other communities around is currently being dumped outside the gate. The total tonnages deposited at the site are unknown because there is no record of incoming waste.

Present value (2019) of the rehabilitation of the solid waste site is R 12 513 650.

23. Service charges

	2019	2018
Sale of electricity	50 422 295	50 169 287
Sale of water	49 102 818	49 429 239
Sewerage and sanitation charges	22 854 887	20 637 802
Refuse removal	21 694 581	19 177 004
	144 074 581	**139 413 332**

24. Rental of facilities and equipment

	2019	2018
Premises		
Rental of sites	444 855	368 768
Facilities and equipment		
Rental of facilities	55 760	145 910
	500 615	**514 678**

25. Interest received (trading)

	2019	2018
Interest received (trading)	45 384 048	40 358 478

26. Other income

	2019	2018
Building plans and clearance certificates	29 636	60 582
Connection fees	572 386	503 730
Insurance claims	1 203	-
Sundry income	182 831	470 281
Tender documents	207 658	189 880
	993 714	**1 224 473**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

27. Investment revenue

Interest revenue		
Bank	504 154	831 922

28. Property rates

Rates received

Property rates	19 254 679	18 796 636

Valuations

Residential	1 085 792 410	1 105 623 907
Commercial	227 011 754	206 481 254
State	190 173 540	198 838 357
Municipal	328 093 500	329 681 900
Small holdings and farms	5 067 962 931	3 279 778 287
	6 899 034 135	**5 120 403 705**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The amended act (MPRA) prescribes that the valuation roll is valid for a period of 5 years.

The municipality has submitted an application to the MEC for the extension of the current valuation roll to 7 years.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

29. Government grants and subsidies

Operating grants		
Equitable Share	87 543 000	79 880 000
Expanded Public Works Programme Grant	1 054 000	1 000 000
Municipal Finance Management Grant	1 770 000	1 700 000
	90 367 000	82 580 000
Capital grants		
Integrated National Electrification Programme Grant	1 419 705	3 580 295
Municipal Infrastructure Grant	24 927 000	25 755 000
Regional Bulk Infrastructure Grant	6 672 131	8 162 805
Water Services Infrastructure Grant	3 451 665	-
	37 345 478	33 917 805
	126 837 501	**120 078 100**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	39 433 365	40 045 478
Unconditional grants received	87 543 000	79 880 000
	126 976 365	**119 925 478**

Municipal Finance Management Grant

Current-year receipts	1 770 000	1 700 000
Conditions met - transferred to revenue	(1 770 000)	(1 700 000)
	-	**-**

To promote and support reforms in financial managament by building capacity in municipalitites to implement the Municipal Finance Management Act (MFMA). The allocation as per the DORA for the financial period was R 1 770 000 (2018: R 1 700 000) and the municipality received the full allocation.

Equitable Share

Current-year receipts	87 543 000	79 880 000
Recognised as revenue	(87 543 000)	(79 880 000)
	-	**-**

The Equitable Share is an unconditional grant and in terms of the Constitution, it is used to subsidise the provision of basic services to indigent community members. The allocation as per the DORA for the current financial period was R 87 543 000 (2018: R 79 880 000) and the municipality received the full allocation.

Integrated National Electrification Programme Grant

Balance unspent at beginning of year	1 419 705	-
Current-year receipts	-	5 000 000
Conditions met - transferred to revenue	(1 419 705)	(3 580 295)
	-	**1 419 705**

Conditions still to be met - remain liabilities (see note 21).

Figures in Rand	2019	2018

29. Government grants and subsidies (continued)

To implement the Integrated National Electrification Programme (INEP) by providing capital subsidies to municipalities to address the electrification backlog of all existing and planned residential dwellings (including upgrade of informal settlements, new, and normalisation), and the installation of relevant bulk infrastructure. There was no allocation received for the current financial period.

Regional Bulk Infrastructure Grant

	2019	2018
Balance unspent at beginning of year	2 426 399	-
Current-year receipts	6 472 365	10 589 204
Conditions met - transferred to revenue	(6 672 131)	(8 162 805)
	2 226 633	**2 426 399**

Conditions still to be met - remain liabilities (see note 21).

To develop new, refurbish, upgrade and replace ageing water and wastewater infrastructure of regional significance that connects water resources to infrastructure serving extensive areas across municipal boundaries or large regional bulk infrastructure serving numerous communities over a large area within a municipality; to pilot regional Water Conservation and Water Demand Management projects or facilitate and contribute to the implementation of local Water Conservation and Water Demand Management projects that will directly impact on bulk infrastructure requirements.

RBIG is a schedule 6(b) grant. Allocations-in-kind to municipalities.

The allocation as per the DORA for the financial period was R 126 700 000 (2018: R 68 006 000). The Municipality received R 6 472 365 (2018: R 10 589 204) for qualifying project plans and expenditure.

Municipal Infrastructure Grant

	2019	2018
Current-year receipts	24 927 000	25 755 000
Conditions met - transferred to revenue	(24 927 000)	(25 755 000)
	-	**-**

To provide specific capital finance for eradication of basic municipal infrastructure backlogs for poor households, microenterprises and social institutions servicing poor communities. The allocation as per the DORA for the financial year was R 24 927 000(2018: R 25 755 000) and the municipality received the full allocation.

Expanded Public Works Programme Grant

	2019	2018
Current-year receipts	1 054 000	1 000 000
Conditions met - transferred to revenue	(1 054 000)	(1 000 000)
	-	**-**

To provide Expanded Public Works Programme (EPWP) incentive funding to expand job creation efforts in specific focus areas, wher labour insentive delivery methods can be maximised. The allocation as per the DORA for the financial period was R 1 054 000 and the municipality received the full alloacation.

Water Services Infrastructure Grant

	2019	2018
Current-year receipts	4 210 000	-
Conditions met - transferred to revenue	(3 451 665)	-
	758 335	**-**

Figures in Rand	2019	2018

29. Government grants and subsidies (continued)

Facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services in prioritised district municipalities, especially in rural municipalities. Provide interim, intermediate water and sanitation supply that ensures provision of services to identified and prioritised communities, including through spring protection, drilling, testing and equipping of boreholes, provide on-site sanitation solutions, support the existing bucket eradication programme intervention in formal residential areas and support drought relief projects in affected municipalities.

WSIG is a schedule 6(b) grant. Allocations-in-kind to municipalities.

The allocation as per the DORA for the financial period was R 260 059 000 (2018: R 64 333 000). The municipality received R 4 210 000 (2018: R0) for the current year project plans and expenditure.

Water Meter Installation Grant

	2019	2018
Current-year receipts	1 000 000	-

Conditions still to be met - remain liabilities (see note 21).

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No. 3 of 2017), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

30. Public contributions and donations

	2019	2018
Public contributions and donations	-	500 000

In 2017/2018 financial year, National Treasury paid suppliers (R 500 000) on behalf of the municipality.

31. Fines

	2019	2018
Traffic fines, Penalties and Forfeits	1 537 106	36 329

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

32. Employee related costs

Acting allowances	1 722 002	2 677 750
Basic	74 404 654	71 197 740
Bonus	5 535 575	4 550 869
Defined contribution plans	-	287 000
Housing benefits and allowances	1 257 964	1 325 802
Leave pay and bonus provision	747 288	(14 383)
Medical aid - company contributions	7 971 632	4 222 579
Overtime payments	3 406 261	4 058 483
Pension	13 464 731	11 050 489
SALGA contributions	45 988	56 580
Skills development levy	854 314	965 412
Standby allowances	1 309 793	1 924 896
Telephone and other allowances	576 150	1 037 737
Travel allowances	4 245 103	4 841 431
UIF	678 490	777 867
WCA	1 880 519	94 919
	118 100 464	**109 055 171**

The leave pay and bonus provision comprises of the year-on-year movements in the leave and bonus provisions. Refer to note 20 for more detail on these employee benefit liabilities.

Remuneration of Accounting Officer and Directors

Remuneration of Municipal Manager

Annual remuneration	1 120 869	1 203 856
Acting allowance	-	100 749
Car allowance	96 000	96 000
Bonus	84 000	75 000
Other allowances	48 692	48 000
Contributions to UIF, medical and pension funds	43 473	16 920
	1 393 034	**1 540 525**

Remuneration of Chief Financial Officer

Annual remuneratiion	869 869	340 692
Acting allowance	-	481 195
Car allowance	60 000	130 662
Bonus	-	28 391
Other allwances	-	4 514
Contributions to UIF, medical and pension funds	34 065	133 555
	963 934	**1 119 009**

Remuneration of Director - Corporate Services

Annual remuneratiion	940 590	1 135 248
Car allowance	42 000	42 000
Bonus	84 000	68 000
Other allowances	36 780	36 000
Contributions to UIF, medical and pension funds	1 784	14 605
	1 105 154	**1 295 853**

Remuneration of Director - Technical Services

Annual remuneration	593 571	382 363
Car allowance	156 000	45 000
Bonus	90 000	59 429
Other allowances	18 780	60 000

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

32. Employee related costs (continued)

Contributions to UIF, medical and pension funds	76 472	6 160
	934 823	**552 952**

Remuneration of Director - Community Services

Annual remuneration	587 571	537 751
Acting allowance	-	137 484
Car allowance	-	76 577
Bonus	-	28 391
Other allowances	692	2 633
Contributions to UIF, medical and pension funds	1 784	53 130
	590 047	**835 966**

No performance bonuses were paid to Executive Directors in the current or prior year. All bonuses refer to salary structuring based on individual requests.

33. Remuneration of councillors

Salaries	4 046 761	4 084 569
Mayor	872 149	582 722
Car and other allowances	1 931 405	1 499 107
	6 850 315	**6 166 398**

In-kind benefits

The Mayor and Speaker are full-time employees of the Municipality. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and Speaker have the use of Council owned vehicles for official duties.

The Mayor and Speaker have the use of Council owned laptops and tablets.

Councillor remuneration is in line with the upper limits that is Gazetted by the Department of Cooperative Governance and the framework envisaged in section 219 of the Constitution.

No performance bonuses were paid to Councillors in the current or prior year. All bonuses refer to the structuring of remuneration based on individual requests.

Mayor	872 149	809 507
Executive Committee	1 562 956	1 424 913
Councillors	3 708 610	3 277 564
Speaker	706 600	654 414
	6 850 315	**6 166 398**

34. Depreciation and amortisation

Property, plant and equipment	55 792 863	67 183 930
Intangible assets	16 227	16 227
	55 809 090	**67 200 157**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

35. Impairment of assets

Impairments		
Property, plant and equipment	149 042	548 280

During the annual asset verification process assets were identified that were damaged or not working as intended.

The main classes of assets affected by impairment losses are:

Infrastructure assets - R 148 042 (2018: R 545 679)

Other property, plant and equipment - R 0 (2018: R 2 601)

36. Finance costs

Non-current borrowings	705 574	803 958
Trade and other payables	29 628 287	21 743 354
Finance leases	352 038	101 110
Landfill site provision	1 757 146	1 380 479
	32 443 045	**24 028 901**

37. Lease rentals on operating lease

Lease rentals on operating lease	4 069 921	183 147

38. Debt impairment

Bad debts written-off	42 498 520	48 721 632
Contributions to debt impairment provision	66 687 272	51 357 726
	109 185 792	**100 079 358**

Actual bad debts written off amounted to R 42 498 520 (2018: R 48 721 632) whilst the increase in the provision for impairment amounted to R 66 687 272 (2018: R 51 357 726).

39. Repairs and maintenance

Repairs and maintenance	11 899 647	11 380 572

Refer to note 12 for further detail on the asset classes that were maintained.

40. Bulk purchases

Electricity - Eskom	50 791 806	46 522 420
Water	640 573	302 992
	51 432 379	**46 825 412**

41. Contracted services

Specialist Services	12 768 281	7 363 971
Other Contractors	-	3 492 976
	12 768 281	**10 856 947**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

42. General expenses

Advertising	735 779	200 025
Assets expensed	10 602	1 051 957
Auditors remuneration	2 952 951	4 720 743
Bank charges	727 372	722 069
Chemicals	2 010 269	1 737 396
Cleaning	1 386 573	350 330
Commission paid	798 402	937 040
Conferences, seminars and public events	2 700 732	350 049
Consulting and professional fees	4 425 072	41 979
Consumables	507 085	776 449
Donations	940 941	349 086
Electricity	5 013 051	4 675 160
Entertainment	3 956	84 472
Fuel and oil	4 064 788	2 703 780
Bursaries	91 790	1 617 413
Hire of equipment	3 249 636	6 265 656
Insurance	2 537 160	1 716
Licences	1 231 809	483 612
Postage and courier	304 730	439 405
Printing and stationery	1 062 331	767 702
Promotions	9 080	1 606 049
Refuse	126 498	880 546
Security (guarding of municipal property)	23 628	25 424
Sports campaign	2 690	900
Subscriptions and membership fees	1 106 653	1 158 430
Telephone and fax	919 597	1 203 016
Tourism development	-	78 950
Training	587 417	770 331
Travel - local	1 772 499	1 944 874
Uniforms	257 508	1 148 154
	39 560 599	**37 092 713**

43. Loss on disposal of assets and liabilities

Property, plant and equipment	200 000	(1 647 498)

44. Fair value adjustments

Biological assets	53 047	27 953

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

45. Cash generated from operations

Deficit	(101 204 404)	(93 061 293)
Adjustments for:		
Depreciation and amortisation	55 809 090	67 200 157
Loss on sale of assets and liabilities	(200 000)	1 647 498
Fair value adjustments	(53 047)	(27 953)
Finance costs - Finance leases	352 038	101 110
Impairment deficit	149 042	548 280
Debt impairment	109 185 792	100 079 358
Movements in retirement benefit assets and liabilities	2 622 622	4 385 265
Movements in provisions	2 655 944	1 380 479
Actuarial (gain)/losses	(1 724 726)	(221 360)
Changes in working capital:		
Inventories	120 754	(60 351)
Receivables from exchange transactions	-	(23 387)
Consumer debtors	(112 020 557)	(102 541 398)
Receivables from non-exchange transactions	1 071 586	(1 456 381)
Payables from exchange transactions	102 699 530	48 958 883
VAT	(13 861 669)	(204 820)
Unspent conditional grants and receipts	138 864	3 846 104
Consumer deposits	170 122	111 201
	45 910 981	**30 661 392**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

46. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	77 927 339	52 698 120
Not yet contracted for and authorised by accounting officers		
• Property, plant and equipment	198 607 813	15 809 608
Total capital commitments		
Already contracted for but not provided for	77 927 339	52 698 120
Not yet contracted for and authorised by accounting officers	198 607 813	15 809 608
	276 535 152	**68 507 728**

Authorised operational expenditure

Already contracted for but not provided for		
• Expenditure	9 967 978	8 698 231
Total operational commitments		
Already contracted for but not provided for	9 967 978	8 698 231

Total commitments

Total commitments		
Authorised capital expenditure	276 535 152	68 507 728
Authorised operational expenditure	9 967 978	8 698 231
	286 503 130	**77 205 959**

Operating leases - as lessee

Minimum lease payments due		
- within one year	-	83 354
- in second to fifth year inclusive	-	181 213
- later than five years	-	58 654
	-	**323 221**

Certain of the municipality's equipment is held to generate rental income. There are no contingent rents receivable.

47. Contingencies

Description of the Matter	2019	2018
Department of Water and Sanitation Litigation is in process between the municipality and the Department of Water and Sanitation relating to statutory obligations. The amount under dispute is R 5 557 334. The legal fees amount to R 400 000 and the court fees for third party amount to R 1 389 333.	7 346 667	6 946 667
J Shabalala Litigation is in process against the municipality relating to damage to property of J Shabalala. The amount under dispute is R 187 100. The legal fees amount to R 46 775.	-	233 875
Mothei Construction Litigation is in process against the municipality relating to a dispute with Mothei Construction who is suing for professional fees, services and disbursement related to MIG project. The amount under dispute is R 2 104 255. The legal fees amount to R 526 064 and court fees estimated to be R 526 064.	3 156 383	2 630 319
TLWG Lekota Litigation is in process against the municipality relating to a dispute with TLWG Lekota for personal injury resulting from speed hump with no sign. The amount under dispute is R 310 000. The legal fees estimated to amount to R 200 000 and court fees to be R 77 500.	627 500	387 500
DD Radebe Litigation is in process against the municipality relating to a dispute with DD Radebe for unfair dismissal. The amount under dispute is R 1 568 229. The legal fees amount to R 392 057.	-	1 960 286
Rudnat Projects CC Litigation is in process against the municipality relating to a dispute with Rudnat Projects CC for services rendered for business plan and design professional fees. The amount under dispute is R 5 287 036. The legal fees amount to R 350 000 and court fees estimated to be R 1 321 759.	6 958 795	6 608 795
DE Motaung Litigation is in process against the municipality relating to physical injuries to DE Motaung due to electrocution by transformer. The amount under dispute is R 3 422 000. The legal fees amount to R 863 750 and court fees estimated to be R 863 750.	5 149 500	4 285 750
Tshiya Infrastructure Development (Pty) Ltd Litigation is in process against the municipality relating to a claim of payment for performance and premature termination of contract with Tshiya Infrastructure Development (Pty) Ltd. The amount under dispute is R 1 739 517. The legal fees amount to R 434 880 and court fees estimated to be R 434 880.	2 374 399	2 174 397
Telkom SA SOC LTD Litigation is in process against the municipality relating to a dispute with Telkom SA SOC LTD (Pres. Swart & Walker streets). The claim amounts to R 71 636.93 and the legal fees amount to R 17 909.23 (2018: R 20 000). The court fees are estimated to R 17 909.23 .	107 455	20 000
Telkom SA SOC LTD Litigation is in process against the municipality relating to a dispute with Telkom SA (Voorspoedstreet Reitz). The claim amounts to R 30 000 and the legal fees amount to R 7 000. The court fees are estimated to be R 7 000.	45 000	30 000
Fastevents 15 CC Litigation is in process against the municipality relating to a dispute with Fastevents 15 CC. The claim amounts to R 606 505.20 and the legal fees amount to R 120 000. The court fees estimated to be R 151 626.30.	878 132	150 000
AFCA Trading and supply (Pty) Ltd Litigation is in process against the municipality relating to a dispute with AFCA Trading and supply (Pty) Ltd(claim 1). The legal fees amount to R 150 000.	-	150 000
AFCA Trading and Supply (Pty) Ltd	-	150 000

Figures in Rand	2019	2018
47. Contingencies (continued)		
Litigation is in process against the municipality relating to a dispute with AFCA Trading and Supply (Pty) Ltd (claim 2). The legal fees amount to R 150 000.	-	-
Panasonic Business Systems	120 000	150 000
Litigation is in process against the municipality relating to a dispute with Panason IC Business Systems (Rental Telephone Systems Overpay). The legal fees amount to R 120 000 (2018: R 150 000).		
Khato Consulting Engineers	10 530 000	250 000
Litigation is in process against the municipality relating to a dispute with Khato Consulting Engineers for cancellation of agreement. The claim amounts to R 8 024 000 and legal fees amount to R 500 000. The court fees are estimated to be R 2 006 000.		
Ben Ben Technologies (Pty) Ltd	-	150 000
Litigation is in process against the municipality relating to a dispute with Ben Ben Technologies (Pty) Ltd. The legal fees amount to R 150 000		
T Motholo & 9 Others	-	250 000
Litigation is in process against the municipality relating to a dispute with T Motholo & 9 Others - Sites Fraudulanty Sold. The legal fees amount to R 250 000.		
Ruvick Energy (Pty) Ltd.	6 000	250 000
Litigation is in process against the municipality relating to a dispute with Ruvick Energy (Pty) Ltd. The legal fees amount to R6 000 (2018: R 250 000) for the legal opinion.		
Faka Engineering & Hydraulics Services CC	114 200	60 000
Litigation is in process against the municipality relating to a dispute with Faka Engineering & Hydraulics Services CC (Reitz) for services done. The amount under claim is R 59 359.80. The legal fees are estimated to amount to R 40 000 and court fees estimated to be R 14 839.95.		
Enock Ndumo	250 000	250 000
Litigation is in process against the municipality and 13 others relating to a dispute with Enock Ndumo for challenge on the establishment of ward committee. The legal fees amount to R 250 000.		
Maxprof	500 000	500 000
Litigation is in process against the municipality relating to a dispute with Maxprof (Breach of contract). The legal fees amount to R 500 000.		
N and C Maintenance and Spares (Pty) Ltd	726 388	150 000
Litigation is in process against the municipality relating to a dispute with N and C Maintenance and Spares (Pty) Ltd for claim relating to repair and/ or supply of water plant equipment. The claim amount is R 484 258.54 and the legal fees amount to R 121 064.64 (2018: R 150 000). The court fees are estimated to be R 121 064.64.		
Faka Construction CC	-	150 000
Litigation is in process against the municipality & 3 others relating to a dispute with Faka Construction CC. The legal fees amount to R 150 000.		
Thapello Motholo & 9 Others	1 000 000	250 000
Litigation is in process against the municipality relating to a dispute with Thapello Motholo & 9 others for eviction. The legal fees estimated to amount to R 1 000 000 (2018: R 250 000).		
Unknown Debtor Panatel CC	-	200 000
Litigation is in process against the municipality relating to a dispute with Unknown Debtor Panatel CC (Panasonic). The legal fees amount to R 200 000.		
ESKOM	1 000 000	950 000
Litigation is in process against the municipality relating to a dispute with ESKOM for non-payment of current account. The legal fees are estimated to amount to R 1 000 000 (2018: R 400 000).		
Johannes Molefe Mosia and 16 others	-	300 000

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

47. Contingencies (continued)

Litigation is in process against the municipality relating to a dispute with Johannes Molefe Mosia and 16 others (Interdict). The legal fees amount to R 300 000.		
Unknown	-	300 000
Litigation is in process against the municipality relating to persons intending to invade and/or occupy portion 26 of Farm Brandhoek Lindley. The legal fees amount to R 300 000.		
Makgale TG	425 865	-
Litigation is in process against the municipality for unfair labour practice. The amount under claim is R 283 909.80 and the legal and court fees are estimated to be R 70 977.45 and R 70 977.45 respectively.		

48. Related parties

Relationships

Accounting Officers	Manzi Mzwandile Penwell (Pemza Consultancy Agency, Nthape IT, Mamampu Trading Enterprise, Mzwajo Project Management Services)
	Rolihlala Richard Alexander
Chief Financial Officer	Malindi Xolani
Councillors	Tshabalala Ncani Selina - (Dexpro Contruction and Trading)
	Blignaut Marthinus - (Monaufc Belegging, NG Welsyn Reitz Wooneenhede, NG Welsyn Reitz Tehuis)
	Mofokeng Ntombizonke Liesbeit
	Mokoena Kgaketla Abram
	Mphaka Mamahlaphe Roslinah - (Nketoana Women Primary Cooperative Limited)
	Mkhwanazi Motemote
	Mosia Molefi Johannes
	Nhlapo Buyisiwe Martha - (Ibutho Multi-Purpose Co-operative Limited, Buyiphila Trading)
	Semela Molahlehi Simon
	Motloung Mammela Sarah
	Mofokeng Phoka Petrus
	Mofokeng Kheledi Alfred
	Botha Michiel Christiaan
	Mokoena Thabo Elias
	Moloedi Petrus Monyatso
	Mokoena Maditswako Teresia
	Nhlapo Letshabang Godfrey
	Muller Helena Maria
Members of key management	Nhlapo Solomon Mokete
	Patricia Morokolo
	Moeketsi Letsela

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:
- entities that are directly or indirectly controlled by the municipality;
- associates;
- joint ventures and management;
- key management personnel, and close members of the family of key management personnel;
- entities in which a substantial ownership interest is held, directly or indirectly, by key management personnel or entities over which such a person is able to exercise significant influence; and
- entities that control or exert significant influence over the municipality

Executive management
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the municipal entity, directly or indirectly, including any director (whether executive or otherwise) of the municipality. The municipality's key management personnel includes the Accounting officer, Executive Directors and close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the group.

Related party balances and transactions
No transactions took place between the municipality and key management personnel or their close family members during the reporting period.

Remuneration of management and council
Details relating to remuneration of key management and council have been included in notes 32 & 33.

49. Prior period errors

The municipality corrected the following prior period errors retrospectively and restated comparative amounts In terms of GRAP 3 -Accounting policies, Changes in Estimates and Errors:

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to prior year's Finance lease obligation to record all assets under finance lease. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit Property, plant and equipment - Finance lease assets R 2 306 732
- Increase/Credit Property, plant and equipment - Accumulated depreciation- Finance lease assets R 98 017
- Increase/Credit Finance lease obligation R 1 931 457
- Increase/Debit Depreciation R 95 465
- Increase/Debit Finance cost R 101 109

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to adjust the Employee benefit obligation. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Credit Employee benefit obligation - Medical Aid Benefit R 19 105 655
- Decrease/Debit Accumulated surplus R 17 220 528
- Increase/Credit Actuarial gains R 1 793 532
- Increase/Debit Finance cost R 1 712 166
- Increase/Debit Employee cost R 1 966 493

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to adjust the Employee benefit obligation. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Credit Employee benefit obligation - Long Service Award R 3 443 374
- Decrease/Debit Accumulated surplus R 2 417 140
- Decrease/Debit Actuarial gains R 307 172
- Increase/Debit Finance cost R 223 174
- Increase/Debit Employee cost R 495 888

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to prior year's Property, plant and equipment to capitalise and include projects that were certified completed in the Infrastructure fixed asset register. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit Depreciation R 1 088 435
- Increase/Credit Property,plant and equipment - Accumulated depreciation R 4 121 543
- Decrease/Debit Accumulated surplus R 3 033 108

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to prior year's Property, plant and equipment to capitalise and depreciate completed projects from the effective date of the asset being brought into use. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit Property,plant and equipment - Depreciation R 493 411
- Increase/Credit Property,plant and equipment - Accumulated depreciation R 493 411

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to prior year's Cash book balances. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Credit Cash and Cash Equivalents R 3 751 467
- Increase/Debit Accumulated Surplus R 3 751 467

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to prior year's Trade and other payables and General Expenditure. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit General Expenses R
- Increase/Credit Trade and other payables

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to prior year's Unspent conditional grant for conditions met. These corrections were treated as prior period errors and the net effect was as follows:
- Decrese/Debit Unspent conditional grant R 152 621
- Increase/Credit Government grants and subsidies R 152 621

49. Prior period errors (continued)

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to prior year's Long-term deposit(Eskom deposit) . These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit Long-term deposit R 185 143
- Decrease/Credit General Expenditure R 185 143

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to prior year's Provision for leave pay to correct the daily rate and salaries used for the calculations as well as to determine the leave on permanet employees only. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit - Employee cost R1 262 899
- Decrease/Credit - Leave pay provision R 1 262 899

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to prior year's Expenditure and creditors to record unrecorded liabilities. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit General Expenditure - Subscriptions R 1 145 930
- Increase/Credit Accounts Payable R 1 145 930

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to prior year's Investment Property to account for investment properties that were previously not included in the register of Investment Property. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit - Investment Property R 88 447 000
- Decrease/Credit Accumulated surplus - R 88 447 000
- Increase/Credit Input VAT (R261 165)

While preparing the annual financial statements for the year ending 30 June 2019, corrections were made to prior year's Creditors to record liabilities due to the Compensation Fund. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit - Accumulated surplus R 1 500 579
- Increase/Credit - Trade Payables R 2 479 755
- Increase/Debit - Employee related cost R 890 159
- Increase/Debit - Finance cost R 89 016

The correction of the errors resulted in adjustments as follows:

Statement of financial position		
Cash and cash equivalents	-	(3 751 467)
Long-term deposit	-	185 143
Property, plant and equipment	-	(2 406 240)
Investment property	-	88 447 000
Employee benefits obligation	-	(22 549 029)
Unspent conditional grants and receipts	-	152 622
Finance lease obligation	-	(1 931 457)
Payables from exchange transactions	-	(2 362 786)
Increase/(Decrease) in Accumulated Surplus 2017/2018	**-**	**55 783 786**

Statement of Financial Performance		
Government grants and subsidies	-	(152 622)
Employee related cost	-	2 089 642
Depreciation and amortisation	-	1 677 312
Finance cost	-	2 125 466
Lease rentals on operating lease	-	(538 607)
General expenditure	-	960 787
Actuarial (gains)/losses	-	(1 486 360)
Increase/(Decrease) in Accumulated Surplus 2017/2018	**-**	**4 675 618**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

50. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of R 656 177 626 and that the municipality's total current liabilities exceed its current assets..

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. The municipality's current financial health however indicates that a material uncertainty exists as the municipality may not be able to realise its assets and discharge its liabilities.

The amount payable to Eskom accounts for more than 80% of the trade payable balance. During the previous financial years management of Nketoana Local Municipality negotiated with Eskom via Provincial Treasury to arrange repayment of the outstanding balance over a 48 month term.

This and other arrangements with significant payables, strengthened the current ratio.

Management compiled a revenue enhancement strategy that was approved by council. This strategy includes the collection of arrears via the prepaid electricity system; and termination, blocking or reduction of services due to non-payment.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality.

51. Unauthorised expenditure

	2019	2018
Opening balance	303 921 770	259 629 854
Current year - incurred	189 327 359	44 291 916
	493 249 129	**303 921 770**

2019

The current year expenditure relates to expenditure incurred for which there was no budget or for expenditure which was incurred after the budget had been depleted.

Please refer to Appendix G(2): Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote) for more information on the unauthorised expenditure.

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52. Fruitless and wasteful expenditure

	2019	2018
Opening balance	57 862 914	36 527 507
Add: Fruitless and wasteful expenditure - Incurred	26 501 996	21 335 407
	84 364 910	**57 862 914**

The current year fruitless and wasteful expenditure relates to interest and penalties on overdue submissions and accounts. No investigations in terms of Section 32 of MFMA were finalised during the current financial year.

Details of fruitless and wasteful expenditure	2019 Interest on overdue accounts	2018 Interest on overdue accounts
Auditor-General South Africa	186 555	517 922
DBSA	-	200 779
Eskom	26 315 441	19 502 406
Other suppliers	-	1 011 989
South African Revenue Services	-	102 311
	26 501 996	**21 335 407**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

53. Irregular expenditure

Opening balance	167 988 460	143 930 775
Add: Irregular Expenditure - current year	3 026 557	24 057 685
	171 015 017	**167 988 460**

No investigations in terms of Section 32 of MFMA were finalised during the current financial year.

Analysis of expenditure awaiting condonation per age classification

Current year	3 026 557	24 057 685
Prior years	167 988 460	143 930 775
	171 015 017	**167 988 460**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Non-compliance with SCM Regulations - Regulation 32 not followed	None	2 000 710
Non-compliance with SCM Regulations - date for advert in bid process was short	None	99 636
Non-compliance with SCM Regulations - SCM policy and process not followed	None	926 211
		3 026 557

54. Deviation from supply chain management regulations

	2019	2018
Deviations for the current year	2 534 890	1 454 028

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officers and includes a note to the annual financial statements.

Goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officers who considered them and subsequently approved the deviation from the normal supply chain management regulations.

The following are the deviation amounts and reasons:

Emergency deviation - R 2 534 890.00 (2018: R 1 454 028) .

55. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1 173 067	234 090
Current year subscription / fee	1 102 710	1 251 477
Amount paid - current year	-	(105 547)
Amount paid - previous years	(600 000)	(206 953)
	1 675 777	**1 173 067**

Contributions to organised local government consist of annual subscriptions paid to SALGA.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

55. Additional disclosure in terms of Municipal Finance Management Act (continued)

Material distribution losses

Electricity	-	6 567 039
Water	-	8 553 933
	-	**15 120 972**

Bulk water losses	Kiloliter	Percentage (%)
2019	-	110
2018	993 488	27
	993 488	**137**

Distribution losses - Water
The water losses are mainly due to metering inefficiencies, burst pipes and leaks in the reticulation network. In the current year the water losses were 27% (2018: 27%).

Kl - units		993 488
Percentage	27%	27%

Distribution losses - Electricity

In the current year the energy losses were 12.65% (2018: 12.65%). These losses are as a result off theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

kWh - units	5 051568
Percentage	12.65%

The electricity distribution loss comprises of technical and non-technical losses. The annual electricity distribution losses are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.

<u>Non-technical losses:</u>
Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption, faulty meters, etc.

<u>Technical losses:</u>
Technical losses are the result of electricity losses while being distributed from the source of generation through the transmission and distribution network to the final consumer. Technical losses are inherent to the supply of electricity via lines and is further affected by the condition and age of the network, the weather conditions and load on the system. The wires (copper or aluminum) being used to distribute electricity has certain resistance which resist the throughput of current, as a result there is a certain portion of electricity that is lost due to distribution.

Audit fees

Opening balance	2 830 739	5 809 135
Current year fee	2 874 654	4 703 317
Amount paid - current year	-	(4 703 317)
Amount paid - previous years	(2 716 743)	(2 978 396)
	2 988 650	**2 830 739**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

55. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

	2019	2018
Opening balance	980 833	-
Current year deductions	13 318 444	12 265 936
Amount paid - current year	(11 715 690)	(11 285 103)
Amount paid - previous years	(980 833)	-
	1 602 754	**980 833**

Pension and Medical Aid Deductions

	2019	2018
Opening balance	-	2 984 193
Current year deductions	23 941 903	20 570 753
Amount paid - current year	(17 203 583)	(20 570 753)
Amount paid - previous years	-	(2 984 193)
	6 738 320	**-**

VAT

	2019	2018
VAT receivable	35 021 492	21 159 823

VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the current financial year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	**Outstanding more than 90 days R**
Councillor Nakedi, MT	933
Councillor Nhlapo, BM	25 490
	26 423

30 June 2018	**Outstanding more than 90 days R**
Councillor Mokhoba , P	31 764
Councillor Mokokeng, OS	2 910
Councillor Mokoena, TE	4 198
Councillor Mosia, MJ	23 023
Councillor Tsotetsi, MS	11 559
	73 454

During the year all the Councillors’ with arrear accounts entered into repayment agreements with the municipality.

Non-compliance with sections of MFMA

- Section 14(2)
- Section 32(2)(a) and (b), 32(4)
- Section 62(2)(e)

Figures in Rand	2019	2018

56. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	7 243 796	6 538 222

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.

57. Change in estimate

Property, plant and equipment

The residual values, estimated useful lives and depreciation method were reviewed at the end of the financial period. Adjustments to the residual values and useful lives affect the amount of depreciation for the current year and is expected to affect future periods as well.

The remaining useful lives of Buidlings, Infrastructure and Other property, plant and equipment was increased based on the condition of the assets. Effect of the change in the usefull lives:

Increase / (Decrease) in Depreciation on Buildings	-	(7 503 007)
Increase / (Decrease) in Depreciation on Infrastructure assets	-	(116 214)
Increase / (Decrease) in Depreciation on Other property, plant and equipment	-	(295 299)
	-	**(7 914 520)**

Receivables for exchange and non-exchange transactions

In the current period management have revised the methodology used to estimate the impairment of accounts receivable as required in terms of GRAP 104 - Financial Instruments. The change did not result in increase or decrease in the determination of impairment provision, however, there was material change in the consistency of disclosure of the ageing of receivables from exchange and non-exchange transactions. The ageing of accounts receivables were disclosed net of the provision for impairment in the prior financial period whereas in the current financial period the ageing was disclosed for the gross receivable balances for all service categories with no ageing of impairment.

58. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- The municipality Head Office Building in Reitz was torched with fire in an attempted arson attack on the 8th July 2019 and sections of the building were damaged as a result. The estimated insurable damages amounted to R227 890 and this event has not been estimated to have a material adjusting effect on the annual financial statements.

59. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At amortised cost	At cost	Total
Other financial assets	27 632	1 184 869	1 212 501
Trade and other receivables from exchange transactions	31 693	-	31 693
Other receivables from non-exchange transactions	2 209 411	-	2 209 411
Consumer debtors	24 307 043	-	24 307 043
Cash and cash equivalents	-	5 447 827	5 447 827
	26 575 779	**6 632 696**	**33 208 475**

. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	At cost	Total
Other financial liabilities	7 243 796	-	7 243 796
Consumer deposits	-	1 683 235	1 683 235
	7 243 796	**1 683 235**	**8 927 031**

2018

Financial assets

	At amortised cost	At cost	Total
Other financial assets	26 113	1 130 060	1 156 173
Trade and other receivables from exchange transactions	31 693	-	31 693
Other receivables from non-exchange transactions	3 280 997	-	3 280 997
Consumer debtors	21 472 278	-	21 472 278
Cash and cash equivalents	978 221	-	978 221
	25 789 302	**1 130 060**	**26 919 362**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	6 538 222	6 538 222
Bank overdraft	5 729 492	5 729 492
Consumer deposits	1 513 113	1 513 113
	13 780 827	**13 780 827**

Financial instruments in Statement of financial performance

2019

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	45 711 615	45 711 615
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	30 021 170	30 021 170
	75 732 785	**75 732 785**

2018

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	41 190 400	41 190 400
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	22 547 312	22 547 312
	63 737 712	**63 737 712**

60. Risk management

Financial risk management

This note presents information about the municipality's exposure to each of the financial risks below and the municipality's objectives, policies and procedures for measuring and managing financial risks. Further quantitative disclosures are included in the annual financial statements.

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The Council has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's audit committee oversees the monitoring of compliance with the entity's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the entity. The audit committee is assisted in its oversight role by the municipality's internal audit function.

The municipality monitors and manages the financial risks relating to the operations of the municipal entity through internal risk reviews which analyse exposures by degree and magnitude of risks. These risks include the following:
- liquidity risk;
- credit risk; and
- market risk (including interest rate risk).

The municipality seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the Council. The policies provide written principles on interest rate risk, credit risk and in the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The municipality does not enter into or trade in financial instruments for speculative purposes.

Figures in Rand	2019	2018

60. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The municipality's exposure to liquidity risk is as a result of the funds not being available to cover future commitments. The municipality manages liquidity risk through ongoing review of commitments.

The municipality has started to improve the cash funds available. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The municipality has not defaulted on payables and lease commitment payments and no re-negotiation of terms were made on any of these instruments.

All of the municipality's financial assets have been reviewed for indicators of impairment. Certain receivables were found to be impaired and a provision has been recorded accordingly. The impaired receivables are mostly due from customers defaulting on service costs levied by the municipality.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	2 400 000	4 843 796	-	-
Finance lease obligation	573 291	875 446	-	-
Trade and other payables	355 661 320	-	-	-

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	2 400 000	4 138 222	-	-
Finance lease obligation	966 925	1 217 809	-	-
Trade and other payables	271 253 484	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management reviews credit risk annually when the impairment and discounting of receivables are performed. Risk control mainly assesses the payment patterns of the consumers.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Receivables from non-exchange transactions	2 209 411	3 280 997
Receivables from exchange transactions(Consumer debtors)	24 307 043	21 472 278
Cash and cash equivalents	5 372 846	(4 806 498)
Other financial assets	1 212 501	1 156 173

Market risk

60. Risk management (continued)

Market rate risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. There has been no change, since the previous financial year to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

60. Risk management (continued)

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality's policy is to minimise interest rate cash flow risk exposures on long-term financing. Long term borrowings are therefore usually at fixed rates. The municipality's exposures to interest rates on financial assets and financial liabilities are detailed below:

At year-end, financial instruments exposed to interest rate risk due to being linked to prime interest rate were as follows:
- Call and notice deposits/investments
- Current bank accounts
- Interest charged on consumer receivables from exchange transactions overdue

The municipality's interest rate risk arises from the above financial instruments being linked to the prime interest rate. The prime interest rate is used as a factor in calculating the interest received or interest charged on these financial instruments. Fluctuations in the prime interest rate during the year give rise to a possible interest rate risk affecting the municipality.

Interest charged on customers' account and or received from investment are calculated using the prime rate at the beginning of the financial year on a weighted average basis. Since this interest rate is only based on prime rate at one point during the financial year, fluctuations in prime during the year will not have a material effect on these financial instruments.

Fair values
The municipality's financial instruments consist mainly of cash and cash equivalents, investments, trade receivables, trade payables and long term debt.
No financial asset was carried at an amount in excess of its fair value. The following methods and assumptions are used to determine the fair value of each class of financial instrument:

Cash and cash equivalents
The carrying amount of cash and cash equivalents approximates fair value due to the relatively short-term maturity of these financial assets and financial liabilities

Investments
Investments are carried at their original cost in the statement of financial position, except for those where the interest received are capitalised.

Receivables from exchange transactions
The carrying amount of trade receivables, net of provision for impairment (provision for bad debt) approximates fair value due to the relatively short-term maturity of these financial assets.

Trade payables
The carrying amount of trade payables approximates fair value due to the relatively short-term maturity of this financial liability.

Interest bearing loans
Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in surplus or deficit over the period of the borrowings on an effective interest basis. The fair value of interest bearing borrowings with variable interest rates approximates their carrying amounts.

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	15,00 %	265 164 454	-	-	-	-
Other financial liabilities	9,26 %	2 400 000	-	-	-	-

Figures in Rand						2019	2018

60. Risk management (continued)

Finance lease obligation	16,75 %	593 291	-	-	-	-

Capital risk

Capital risk refers to the risk that an entity will lose the amount of an investment. An investor takes on capital risk each time an investment is made in anything other than a risk-free security. Capital risk is limited to the amount an entity has invested.

Financial instrument	2019	2018
VKB - Unlisted shares	5 000	5 000

Price risk

Price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. These changes are caused by factors specific to the individual financial instruments for its users or by factors affecting all similar financial instruments in the market. The municipality's financial instruments are affected by the whole sale price of electricity from ESKOM and water from the Department of Water Affairs.

61. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.